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FAILED MULTINATIONAL VENTURES - THE POLITICAL-ECONOMY OF INTERNATIONAL DIVESTMENTS

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Failed Multinational Ventures—
The Political Economy of International Divestments

By Leon Grunberg
Lexington, MA
Lexington Books/D. C. Heath & Company, 1981
176 pages
Bibliography, Index

Often it takes an outsider to give us insights into our own activity or discipline. Such is the situation with the present volume. Leon Grunberg with training in education and sociology gained in the UK and the U.S., offers much food for thought —not just for professors in colleges of business, but also for managers in large companies and consultants in market or financial research firms.

The heart of the book consists of three major case studies from the turbulent mid 1970s. Two are from the automotive and one is from the office equipment field. British Leyland acquires but then abandons Innocenti of Italy; Chrysler pulls off a threatened withdrawal from the UK, if only for three years; and Litton Industries woos then discards Imperial Typewriters of Britain, turning a "cash cow" into a "dog." An appropriate subtitle for each case might have been: Life in the multinational corporate jungle—how large firms romance smaller ones—how they find them, milk them, and leave them.

The reading is lively in each of the three case study chapters. The author has been able to dig out astonishing details from corporate files and from interviews with numerous—but anonymous—executives. He also tracked down dusty government reports, obscure journal articles and such gems as a doctoral dissertation written in Milan. But we get more than juicy tidbits or petty accusations; Grunberg is able to pull together sensitive information from various sources, cross-check them to a great extent, and then glean insights from his interviews. At the end of the book, the case studies are combined in order to offer some useful generalizations, though not policy recommendations.

Several threads run through the text. Some of these are tackled well; some are dealt with in a cursory fashion, and still others are swept under the rug. Thus, Grunberg deals well with his central question: How and why do parent firms divest subsidiaries in an international setting? He is also skillful in demonstrating the interaction between and the strength of both external forces (economic conditions, competition, and so on) and internal forces (individual and group power plays, machinations by parent and subsidiary managers). But the author does not weight these factors in any meaningful fashion; and, despite lengthy references to prior studies, he does not relate well his findings to those of others. Finally, the impact of divestments on workers, customers, and communities is barely touched upon, despite promises to the contrary. Grunberg vacillates between reining in multinationals or letting them loose in today's competitive markets. The call for more disclosure, longer layoff notices, and consulting with governments is made, but in a rather perfunctory manner; at least, there is no recommendation for bureaucratic rules and regulations.

The two brief introductory chapters which explore the nature of international divestment are the weakest part of the book. While the chapters are short, they seem tedious. Simplistic or awkward statements, dry documentation, and failure to extract meaningful data from previous works characterize these pages. The causes and consequences of divestment in a global setting are really not probed at great length or in great depth. (Chapter 2 on this topic offers eight pages of text and three pages of forty footnotes, many with multiple references.) The data marshalled should have been put into tables or appendices. Vague statements such as the following one on page 15 should be deleted: "Hopefully, they (the case studies) will indicate whether we are on the right lines and perhaps point out areas that we have missed altogether."

Chapter 3 is a defense of the author's methodology – but there is no need to apologize. Grunberg calls his painstaking collection of information "the long march." Getting inside large firms, tracking down willing executives, cross-checking the details obtained with others constitute an incomplete process, a judgment-convenience sample. Certainly, not every folder could be obtained, not every executive was willing to speak even anonymously or off the record. But Grunberg was able to elicit comments from many; he seldom entered an interview without already having data on hand. This way, he involved his subjects; approached the topic from different angles, and arrived at a generally well balanced view of the process and the outcome.

In the reconstruction of what happened in each of the three major cases – Chapters 4 through 6 – the author follows a sensible format: reasons for the acquisition; factors affecting the performance of the subsidiary; the process of withdrawal and the consequences for the parties involved; and, reasons for the actual or threatened divestiture. Grunberg's analysis is at its best when he focuses on the parent-subsidiary working accord and on such specific topics as transfer pricing, competition, layoffs, product and marketing strategy. The evidence is quite clear that the parent uses centralization and planning to achieve control and coordination. There is much turmoil, bargaining and "wheeling-dealing." The parent prevails not only because it has a broader view and heavier responsibilities, but because it has the clout; the subsidiary is often kept in the dark even about its present or future role. (An analogy with the human family is tempting!)

The British Leyland-Innocenti relationship pits a large, lethargic multinational against a previously well-managed small Italian firm. The weak parent puts the adverse impact of recessionary and competitive forces on the shoulder of the subsidiary, thereby "exporting its crisis." But ultimately, as one punster put it, the guilty as well as the innocent shall perish. The Chrysler UK case foreshadows the enormous problems which finally beset the large U.S. parent in the late 1970s. What is surprising here is how Chrysler was able to buy time, display favoritism toward other subsidiaries and still manage to stave off defeat on the British front – at least for three years. And the Litton Industries-Imperial case illustrates further how parent firms have favorite kids (in this case Triumph-Adler) and less favored children (that is, Imperial). The former get the chocolate, the latter the breadcrumbs. With a dated product line and a circumscribed marketing plan, Imperial did not have much of a chance to grow to successful maturity.

Chapter 7 pulls together the common findings from the three major cases quite well; Chapter 8, by contrast, is far too brief as a concluding statement and offers no policy recommendations whatsoever. The author is able to demonstrate in his review of the three cases that there is more to the failure of multinational ventures than "the conventional wisdom." Yes, subsidiaries fail because they have not done well in a sharply competitive marketplace. But similar firms have prevailed. It turns out that the foreign subsidiaries could handle their local rivals, but not those from other countries. The key factor which broke the subsidiaries' back was the encroachment of the parents on their (the subsidiaries') discretionary powers. The internal, political environment – rife with power plays by individuals and groups – proved to be too great an obstacle. Grunberg would argue: Give the child a chance to grow up. But, alas, life is not as simple; when a parent has a wide-flung family, some members may have to be reined in and starved, so that others may live.

Positive facets of this volume range from a lively narrative to in depth analysis of three significant cases, from the discovery of sensitive information to a broader perspective than a narrow managerial view. Negative features include minutiae and trivia scattered throughout the text which do detract from the analysis; the lack of weighing the factors responsible for the demise of acquired subsidiaries; and the failure to link the findings to results reported by others (for example, Sachdev, Torneden). On balance, the positive features outweigh the negative ones by an order of 3:1.

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